



**Office of Enterprise Risk Management**  
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February 15, 2011

### **AGENDA ITEM 3b**

**TO: MEMBERS OF THE AD HOC RISK MANAGEMENT COMMITTEE**

- I. SUBJECT:** Risk Reporting
- II. PROGRAM:** Enterprise
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

In November 2010, the Office of Enterprise Risk Management (OERM) provided the first regular risk report to the Board of Administration (Board). This report included an Enterprise Risk Focus list and detailed the mitigations currently underway. Over the past few months, the OERM has continued to monitor these risks and the mitigation activities underway. In addition, the OERM has continued to develop the risk assessment and reporting process by standardizing risk rating criteria, formalizing the risk tracking process, and developing more comprehensive risk reports.

#### **Rating Criteria:**

One important component of Enterprise Risk Reports is a common set of risk rating criteria. For past risk assessments, the OERM has evaluated risks based on impact, velocity, and probability. At the last Executive Risk Management Committee (ERMC) meeting, standardized definitions for these criteria, along with overall risk category and trend ratings, were adopted for use in comparing enterprise risks. These definitions reflect industry best practices and were developed based on best practices and with input from the OERM, enterprise control functions, and the Investment Office. They recognize the diverse nature of risks and can be used to compare not only financial, but also operational, strategic, and other risk impacts. These standardized definitions will ensure the characteristics of a risk identified in any part of the enterprise can be quickly understood and compared to other enterprise risks. These definitions are included in Attachment 1.

#### **Risk Reports:**

In order to provide the Board and Executive Staff with a more comprehensive view of enterprise risks, the OERM has developed a more robust risk reporting format.

The following reports will be provided to the Board and Executive Staff on a regular basis:

- **Enterprise Risk Dashboard (Attachment 2)** – This document provides the Board and Executive Staff with an “at-a-glance” view of the status of enterprise risks. Rather than following the organizational structure, risks are grouped into five major categories and several subcategories that describe the types of impact the risk could have. The OERM has already identified several individual risks in each subcategory, and ratings of these risks will be rolled up into an overall red/yellow/green rating and trend for each subcategory. In this way, the Board and Executive Staff will be able to see changes in the risk environment as they occur, and be able to develop appropriate responses in a timely manner.
- **Enterprise Risk Focus List (Attachment 3)** – This list is compiled by the ERMC and identifies the risks deemed most critical to CalPERS success. These risks are reflective of where management is spending the greatest amount of time and resources. The first focus list was provided to the Board in December 2010, and will be updated to reflect changes in the risk environment and progress in mitigation strategies. In addition, as the ERMC determines that new risks have arisen, or that current risks have been sufficiently mitigated, risks may be added or removed from this “focus list.”
- **Emerging Risk List (Attachment 4)** – In order to promote a more proactive role in risk identification and management, and as part of an early warning strategy for new developments or “black swan” events, an Emerging Risk List will be part of future risk reports. This list will display current issues that could have a significant impact on CalPERS risk exposure, and signals of any changes or new developments in those issues. By identifying the potential impacts of these developments, CalPERS will be better able to develop strategies for managing risk proactively.

**Conclusion:**

As the risk management process at CalPERS develops and use of risk management tools becomes more widespread, it will be critical to maintain consistent definitions and methodologies to ensure clear communication and comparison of risks across organizational boundaries. In addition, providing methods for escalating important issues, while managing smaller issues at the appropriate level, will be essential to providing the Board and Executive Staff with accurate, timely, and useful information. Going forward, the OERM will use the newly standardized rating criteria and reporting formats to provide the Board with a more detailed, comprehensive understanding of enterprise risks.

**V. STRATEGIC PLAN:**

This recommendation supports Goal II of the Strategic Plan, which states that CalPERS is committed to fostering “a work environment that values quality, respect, diversity, integrity, openness, communication, and accountability.”

**VI. RESULTS/COSTS:**

There are no costs associated with this item.

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